Annual Report & Accounts 2018

SysGroup

SysGroup plc
Walker House
Exchange Flags
Liverpool L2 3YL

Company Number
06172239

www.sysgroupplc.com

Contents

Directors, Secretary & Advisers

Directors, Secretary & Advisers

Board of Directors

Michael Edelson
Non-Executive Chairman

Adam Binks
Chief Executive Officer

Julian Llewellyn
Chief Financial Officer

Robert Khalastchy
Non-Executive Director

Mark Quartermaine
Non-Executive Director

Michael Fletcher
Non-Executive Director

Company Secretary
Julian Llewellyn

Registered Office
Walker House
Exchange Flags
Liverpool L2 3YL

Company Number
06172239

Legal Entity Identifier (LEI)
213800D18GPZZJR9SH55

Company Website
www.sysgroupplc.com

Nominated Adviser

Shore Capital and Corporate Ltd
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Broker

Shore Capital Stockbrokers Ltd
The Corn Exchange
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Liverpool L2 7RB

Registrar

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol BS13 8AE

Lawyers

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3 St Mary's Parsonage
Manchester M3 2RD

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Liverpool L3 9SJ

Independent Auditor

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Manchester M3 3AT

Bankers

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London EC2Y 9DT

Highlights

Highlights

Financial

- Record revenues delivered with revenue increasing by 45.7% to £10.45 million (2017: £7.17 million) benefiting from the contribution of Rockford IT Ltd ("Rockford IT") in H2 2018
- £7.13m of revenue is recurring in nature (2017: £5.0m)
- Organic revenue growth of 20.8% generating revenues of £8.65 million
- Adjusted EBITDA* increased by 61.3% to £1.0 million (2017: £0.62 million)
- £0.86 million EBITDA delivered in H2
- Adjusted PBT** growth of 104.2% to £0.49 million (2017: £0.24 million)
- Cash generated from operations of £0.79 million (£1.00 million)
- Net (debt)/cash*** of £(0.92) million (2017: £3.07 million)

	2018	2017	2018 % Increase / Decrease
Revenue (continuing operations)	**£10.45m**	£7.17m	**+45.7%**
Gross margin	**£5.99m**	£4.38m	**+36.8%**
Gross margin %	**57.4%**	61.3%	**(6.4)%**
Adjusted EBITDA [1] (continuing operations)	**£1.00m**	£0.62m	**+61.3%**
Adjusted PBT [2]	**£0.49m**	£0.24m	**+104.2%**
(Loss) before tax (continuing operations)	**£(0.007)m**	£(1.35)m	**-**
Operating cash inflow	**£0.79m**	£1.0m	**(21.0)%**
Net (Debt)/Cash [3]	**£(0.92)m**	£3.07m	**-**

1. Adjusted EBITDA, is earnings before interest, taxation, depreciation, amortisation, acquisition and restructuring costs, fair value adjustments and share based payments
2. Adjusted PBT is profit before taxation after adding back share-based payments, amortisation on acquired intangibles, fair value adjustments and costs relating to acquisition and restructuring
3. Net (debt)/cash represents cash balances less loans and finance lease liabilities

Operational

- Integration of System Professional Ltd ("Sys-Pro") completed
- Acquisition of Rockford IT in November 2017 for an aggregate consideration of £3.85 million and subsequent integration completed
- Improved sales and marketing functions
- Creation of a single team focused on managed IT services and cloud hosting
- Appointment of a Group Marketing Director
- Investment in a single CRM system, to unify the sales operations onto a single platform
- Three year c£1.0 million contract win with T.J. Morris Limited demonstrating success of sales and marketing focus

Highlights Continued

Board Transition

- Mark Quartermaine appointed as an independent Non-Executive Director in November 2017
- Mike Fletcher appointed as an independent Non-Executive Director in January 2018
- New executive team with the appointment of Adam Binks as CEO, having joined the Board as COO in October 2017, and Martin Audcent appointed as CFO post period end

Post Period-End Developments

- Transition to a single brand complete
- Momentum generated in H2 FY2018 continuing into H1 FY2019 with trading in line with expectations

Strategic Report

Strategic Report

Chairman's Statement

SysGroup made considerable progress during the financial year to 31 March 2018. Revenue increased by 45.7% (including organic growth of 20.8%) with Adjusted EBITDA improving by 61.3%. Recurring revenue for the year increased to £7.13m (2017: £5.0m), evidence that the transformation of the Group into a trusted provider of managed IT services and cloud hosting is now complete.

During the course of the year Chris Evans left the business to focus on his health following long-standing issues. The Board naturally considered his replacement extensively and ultimately were delighted that Adam Binks, previously Chief Operating Officer, agreed to step up to become Chief Executive Officer in April 2018.

Adam has been integral to the development of SysGroup and has an unrivalled knowledge of our business through his previous role as Chief Operating Officer. The Board has been impressed with his strategic vision for the Company. As separately announced this morning, Martin Audcent will be joining the Company as Chief Financial Officer in July, following Julian Llewellyn's decision to pursue other opportunities. Julian will remain with the Group for a brief period to oversee an orderly handover and we thank him for his contribution to the Group and wish him success for the future. Martin's appointment completes an Executive team positioned to drive this business through its next phase of growth and which will be ably supported by a Board which was strengthened further during the year with the appointments of Mark Quartermaine and Mike Fletcher as Non-Executive Directors. Mark and Mike bring a significant blend of industry and listed company expertise.

The market opportunity for SysGroup is both considerable and growing as the secular trend continues towards trusted, outsourced partners driven by increasingly complex regulatory requirements and security needs. The Board believes that it has the right strategy and the right team in place to execute. With further investment in the current year we are confident that we can take advantage of this opportunity and look forward to another busy year.

Michael Edelson
Chairman
27 June 2018

Strategic Report

Chief Executive Officer's Report

Introduction

During the financial year ended 31 March 2018 my role was that of Chief Operating Officer, joining the Board of Directors at the end of October 2017 before taking up the post of Chief Executive Officer at the outset of the current financial year. I believe that the operational insights that I gained as COO provide the right grounding for driving the strategic direction of the business. SysGroup is well placed for continued profitable organic and acquisitive growth. I'd also like to thank Michael Edelson for his contribution and support during his tenure as Interim Executive Chairman towards the end of the period.

In 2016 SysGroup commenced a transition of the business to become a trusted provider of managed IT services and cloud hosting. This has been executed through the acquisitions of Sys-Pro (2016) and Rockford IT (2017) and disposal of the Group's SME mass market business (2016). These corporate actions, coupled with structural change within the organisation, have transformed the Group. The Group now has a robust platform, underpinned by high levels of recurring income, to execute its growth strategy.

Following the integration of the Sys-Pro and Rockford IT businesses the Group now has the capability to offer fully managed end to end solutions for its prospects and customers. From managed end user support through to hosted infrastructure, we have an excellent platform from which to deliver further organic growth. Another beneficial aspect of the integration is that we have been able to establish and develop a highly capable senior leadership team across the Group and an engaged workforce who are committed to executing our strategic objectives.

Market

The overall market for our services continues to be buoyant. Companies are increasingly looking for trusted partners to manage their IT needs, driven by the growing focus on security and burdens of compliance and governance, rather than applying internal resource that could struggle with the changing regulatory dynamics. As well as ensuring the best solutions this frees up time and resources for management teams to focus on their business operations.

As with most evolving and growing markets, ours is highly fragmented with a vast array of providers on a national and regional basis varying from full service offerings such as SysGroup through to niche operators.

Strategy

SysGroup's clear focus is to expand its position as a trusted provider of managed IT services and cloud hosting to clients in the UK. The Board believes that a business focused on the provision of managed IT services offers the highest growth opportunity and the potential for increased margins and longer-term contracts, thereby providing greater revenue visibility for the future. In pursuit of this strategy, the Group has been positioned as an extension of a customer's existing IT department, with an emphasis on consultative-led sales to guide customers through the complexities and developments in the market.

Chief Executive Officer's Report Continued

Acquisitions

In November 2017 the Group acquired Rockford IT for an aggregate consideration of £3.85m in cash (on a cash-free/debt-free basis). Rockford enhanced the Group's offering in hosting and security services as well as complementing with connectivity capabilities which now completes the product offering for the provision of end to end managed solutions.

Acquisitions will continue to play a significant role in the Group's strategy to complement organic growth. As previously mentioned, the market in which we operate remains highly fragmented and we believe that we are well placed to be a consolidator. The Board remains alert to earnings enhancing opportunities which will enable us to expand our customer base and / or enhance our offering alongside our internal initiatives.

Sales & Marketing

As highlighted in the group's Half Year Report, a number of strategic changes to the Sales and Marketing functions were implemented in the first half of the year to better support the business. The sales function was restructured to create a single team focused fully on managed IT services and cloud hosting, now headed up by the post-period appointment of Colin Deamer to the role of Group Sales Director. Colin was previously Group Sales Director at IDE Group Holding plc. All supporting teams have likewise been integrated across the Group with single teams operating across the service desk, infrastructure support, cloud delivery and professional services teams. Investments have been made in a new CRM system which has enabled us to unify our sales operations onto a single platform across the group.

In Marketing, the Group initiated a complete overhaul of the marketing efforts to create a new strategic marketing function. This included the appointment of Emmy Lippold to the newly created role of Group Marketing Director. Emmy has previously held senior positions in technology companies with Data8 Limited and Upland Software Inc. based in the USA. This has led to a much more coherent message and strategy with a newly embraced digital marketing capability.

The results of the improved sales and marketing functions are already being seen in the business, as evidenced by the three year contract with T.J Morris Limited which was announced in March of this year. This contract win came as a direct result of our improved marketing initiatives and underpinned the Board's belief in this strategy. As a result, further investments in marketing will be made throughout the current financial year. Whilst this will have an impact on profitability in the current year, the Board firmly believes that it will accelerate our rate of growth and enable us to better take advantage of the current market opportunity.

Financial Review

In the following review, the numbers provided for 2017 exclude operations which were discontinued during that year, in order to give a meaningful comparison for progress achieved in the year to 31 March 2018.

Group revenue for the year grew by 45.7% to £10.45m for the year to 31 March 2018 (2017: £7.17m). Revenue growth was predominantly driven by the Managed Services division and complemented by the value added resale services that the Group offers. Organic revenue growth was 20.8% for the year to 31 March 2018.

We continue to have good visibility of future revenues as the vast majority of our customers have entered into multi-year contracts. As at 31 March 2018 there is £0.43m of deferred revenue (2017: £0.47m) which will be released to profit in future periods.

Gross profit for the year was £5.99m (2017: £4.38m) representing a gross margin of 57.4% (2017: 61.2%). The reduction in gross margin is attributable to the change of sales mix during the year including the introduction of connectivity

Chief Executive Officer's Report Continued

products which contribute less at the gross margin level. The loss before tax for the year of £(0.007)m was a significant improvement on the previous period (2017: £(1.35)m).

Adjusted earnings before interest, taxation, depreciation and amortisation ("EBITDA") for the year to 31 March 2018 increased by 61.3% to £1.0m (2017: £0.62m). Adjusted EBITDA is calculated after excluding acquisition and restructuring costs, share based payment costs and fair value adjustments. The Directors consider that an adjusted EBITDA figure is a more appropriate measure of the underlying performance of the business.

Revenue by Operating Segment	2018 £'000	2018 %	2017 £'000	2017 %
Hosting / Managed Services	7,130	68%	5,400	69%
Value Added Reseller	3,321	32%	1,765	22%
SME Mass Market (discontinued)	-	-	700	9%
Total	**10,451**	**100%**	**7,865**	**100%**

Balance Sheet, Cashflow & Net Debt/Cash

Net cash inflow from operating activities during the year amounted to £0.79m (2017: £1.0m). Net debt (comprising cash balances less loans and finance lease liabilities) at 31 March 2018 was £(0.92)m (2017: net cash £3.07m). During the period the Group drew down £2.0m from an acquisition facility to part fund the acquisition of Rockford IT on 1 November 2017.

Principal Risks & Uncertainties

In line with the nature, size and complexity of the business the senior management team work very closely to identify and evaluate areas of risk whilst developing and monitoring action plans to deal with any potential threats. All outcomes are reported to the Board and support is given as necessary to ensure actions are carried out. Identifiable areas of risk include:

- Dependency on key suppliers – the Group is dependent on certain key suppliers for the continued operation of its business, the most significant of which are the supply of third party software and datacentre services. If any of these suppliers fail in the provision of their services it may have an adverse effect on the Group's ability to provide services to its customers. However, the Group continually assess suppliers for both price competitiveness and technical innovation and are confident that alternative providers could be found.
- Customer retention – the Group provides an essential service to its customers. Any diminution in service levels could impact customer retention levels. However, the Group constantly monitors service levels through its Customer Service teams, conducting regular customer surveys and reviewing performance against service level agreements. The low level of customer attrition is evidence of the Group's ability to provide the level of service required.
- Network – the datacentres we utilise are linked by fibre that we lease. Should the network fail there would be an adverse impact on the service provided to our customers. The Group has designed its network to have no single point of failure, it connects with transit providers at different geographical locations.
- Employees – the Group is a service organisation and as such, is dependent on the skills, knowledge and commitment of its staff. The performance of the Group is dependent on retaining its staff. We mitigate this risk by offering competitive reward packages.
- Acquisitions – the Group has stated that its strategy is to continue to make acquisitions to strengthen its growth. The risk is that we may not be able to find suitable acquisition targets. We mitigate this risk by regularly conducting searches for targets and also retain advisers who introduce targets.

The areas of risk identified above are consistent with the prior year.

Chief Executive Officer's Report Continued

Summary & Outlook

With the integration of acquired businesses and subsequent transformation of the Group now complete, I am confident that SysGroup is well placed to take advantage of strong market dynamics. The momentum within the business is demonstrated by the fact that £0.86 million of the Group's Adjusted EBITDA performance was delivered in the second half of the year.

We have a full end-to-end managed service offering which provides the solutions that our clients need in an increasingly complex regulatory environment and with the necessary levels of security to protect their businesses. We have a clear go-to-market strategy that has already started to deliver results, led by an impressive senior leadership team and supported by a highly engaged workforce and the appropriate levels of infrastructure. Our successful track record of identifying and integrating acquisitions positions us well in a market ripe for further consolidation, which will complement and enhance our organic initiatives.

The current year has started well and trading in line with expectations supported by a growing pipeline of opportunities. The Board will continue to invest in this financial year as we look to accelerate our growth and target profitability improvements next year and beyond.

Adam Binks
Chief Executive Officer
27 June 2018

Board of Directors' Profile

Board of Directors' Profile

Michael Edelson
Non-Executive Chairman

Michael brings a wealth of experience as a Board Director to SysGroup plc. He has been a Founding Director or Chairman of several companies admitted to the AIM market, including Prestbury Group plc, Knutsford Group plc, Mercury Recycling Group plc (now Ironveld plc) and ASOS plc. He was a non-executive Chairman of Bramhall plc, subsequently renamed Magic Moments Internet plc and then Host Europe plc, which acquired Magic Moments Design Limited in September 1999. He has also been on the Board of Manchester United Football Club since 1982.

Adam Binks
Chief Executive Officer

Adam joined SysGroup in August 2014 and was appointed as Chief Executive Officer on 3rd April 2018 after being formally appointed to the board on 31st October 2017. Adam will lead SysGroup through its next stage of growth, which will incorporate strategic acquisitions and continued organic growth to expand the customer offering and geographical reach, as well as investment in capabilities and technology. He has extensive experience in the Managed IT, Hosting & Telecoms sectors across his 18 year career. Adam has played a pivotal role in the transformation of the group from a mass-market web hosting company, to the Managed Services provider it is today. Adam has previously held a number of senior management & board level positions. Prior to joining SysGroup, Adam was Sales & Technical Director at Vispa Ltd, a managed hosting & connectivity provider based in Manchester.

Julian Llewellyn
Chief Financial Officer

Julian was appointed as Chief Financial Officer on 23 January 2017 and formally joined the Board on 6 April 2017. Julian's two previous roles were as Interim Chief Financial Officer of Redcentric plc and Business Improvement Director at Exertis (part of DCC plc). Julian has over 20 years' senior finance experience in both privately held and publicly quoted businesses. Prior to those two roles, from 2010 to 2014, Julian was Group Financial Controller of Greenergy International Ltd, one of the UK's largest privately held companies.

Robert Khalastchy
Non-Executive Director

Robert is a graduate from the University of Sussex where he received a bachelor's degree in Electronic Engineering. For the past 20 years he has been involved in commercial property management working with high net worth overseas clients, assisting in the management of their total UK portfolio and various planning applications, as well as the day to day management of the portfolio. In 2001 he set up RK Management Limited, a commercial property management company handling a portfolio in excess of £35 million. In 2011 he set up Sterling Property Management, a residential block property management company which manages several prestigious blocks in Central and West London.

Mark Quartermaine
Non-Executive Director

Mark has over 30 years' experience in the ICT industry in a variety of executive, sales and marketing roles. He started his career at IBM in 1984 where he held different executive positions both in the UK and abroad culminating in running the point of sale business in the US, as the Worldwide Marketing Director for the Retail Division. In January 2013 Mark joined the board of Alternative Networks as a Non-Executive Director, he subsequently moved to become COO in January 2014 and was then appointed CEO in September 2015. Alternative Networks was subsequently sold to Daisy Group for £165 million in December 2016.

Michael Fletcher
Non-Executive Director

Mike has extensive public markets experience and is currently Non-Executive Chairman of AIM listed Inspired Energy plc (INSE.L), which he helped to successfully bring to market in November 2011. Mike is the Managing Partner of Praetura Capital LLP, a specialist venture capital and advisory business and sits on the board of several privately-owned growth companies including Sorted Group, Peak AI, Starcount, Aberla Services, EC3 Brokers and Praetura Asset Finance. Previously, Mike was a managing director for European investment bank GCA Altium where he gained 10 years' experience in M&A and corporate finance. He has advised a range of clients from public companies, private equity houses and entrepreneurs. Mike is a chartered accountant, qualifying with PwC in 1999, and is both FCA and SRA approved.

Directors' Report

Directors' Report

The Directors present their Annual Report and Audited Financial Statements for the year ended 31 March 2018.

Principal Activities

The principal activities of the business are the provision of managed IT services and cloud hosting.

Business Review & Future Developments

A review of the Group's operations and performance during the financial year, setting out the position at the year-end, significant changes in the year and providing an indication of the outlook for the future is contained in the Strategic report on pages 9 to 13.

Results & Dividends

The Consolidated Statement of Comprehensive Income for the year is set out on page 37. The Directors do not propose the payment of a dividend for the year ended 31 March 2018 (2017: nil).

Financial Instruments

The Group uses various financial instruments. These include bank loans, finance leases, cash and various items (such as trade receivables and trade payables) that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail in note 3 below.

Liquidity Risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved through available cash balances and its overdraft facility.

Interest Rate Risk

The Group finances its operations through a mixture of bank loans, finance leases and the placing of new ordinary shares. The Group drew down £2m from an acquisition loan facility during the year. This facility is on a variable interest rate and the Directors consider this to be appropriate in the current economic environment.

Credit Risk

The Group's principal financial assets are cash, and trade and other receivables. These balances are actively monitored to avoid significant concentrations of credit risk however the total of the cash balances and trade and other receivables represents the maximum exposure to credit risk.

Directors' Report Continued

In order to manage credit risk, the agreement with the customer states preferred collection by direct debit and limits are set for customers based on a combination of payment history and third-party credit references. Credit limits are reviewed by the credit control team on a regular basis in conjunction with debt ageing and collection history. For hosting services, the Group predominantly invoices in advance and the agreement with the customer states preferred collection by direct debit, therefore the financial risk in respect of these debtors is limited.

Directors

The Directors of the Company who held office during the year are as follows:

Name	Position Held
Michael Edelson	Non-Executive Chairman
Christopher Evans	Chief Executive (resigned 30 November 17)
Robert Khalastchy	Non-Executive Director
Julian Llewellyn	Chief Financial Officer (appointed 06 April 2017)
Adam Binks	Chief Operating Officer (appointed 31 October 2017) and subsequently Chief Executive Officer (appointed 3 April 2018)
Mark Quartermaine	Non-Executive Director (appointed 7 November 2017)
Mike Fletcher	Non-Executive Director (appointed 8 January 2018)
Amy Yateman-Smith	Non-Executive Director (resigned 23 October 2017)

The interests of current Directors in shares and options are detailed in the Directors' Remuneration Report on page 21.

Significant Shareholdings

As of 1st June 2018, the Company has been notified of the following significant shareholdings:

Name	Number of Shares	Percentage Holding
Livingbridge EP LLP	4,603,700	19.93%
Canaccord Genuity	3,153,976	13.65%
Legal and General Investment Management Ltd	2,239,355	9.69%
Downing LLP	1,906,517	8.25%
Herald Investment Management Ltd	1,734,055	7.51%
Miton UK Microcap Trust plc	1,206,340	5.22%
William Currie	970,000	4.20%
Hawk Investment Holdings Ltd	837,120	3.62%
Michael Edelson	726,600	3.14%

Directors' Report Continued

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going Concern

The Directors have reasonable expectation that the Group has adequate resources to continue to operate for the foreseeable future. For this reason, they adopt the going concern basis for preparing the financial statements.

Post Balance Sheet Event

On 3 April 2018 the Company appointed Adam Binks as the CEO.

Auditors

Pursuant to s487 of the Companies Act 2006, the auditor will be deemed to be reappointed and BDO LLP will therefore continue in office.

By order of the Board

Julian Llewellyn
Company Secretary
27 June 2018

Directors' Remuneration Report

Directors' Remuneration Report

Remuneration Policy

The Group has a policy to attract, motivate and reward individuals of the highest calibre who are committed to growing the value of the business and to maximising returns to shareholders.

The policy is as relevant to Executive Directors as it is to employees, as we aim to reward Executive Directors and senior employees aligned to the performance of the Group.

The remuneration structure for all employees considers remuneration rates of competitors to ensure continuity and commitment.

Directors' Service Contracts

Copies of Directors' service contracts will be available for inspection at the Annual General Meeting.

The Group does not operate a final salary pension scheme. Executive Directors who are entitled to receive pension contributions may nominate a defined contribution scheme into which the Company makes payments on their behalf.

Directors' Remuneration

A summary of the total remuneration paid to current Directors is set out below:

	2018			2017		
Director	**Salary £'000**	**Benefits in Kind £'000**	**Total £'000**	**Salary £'000**	**Benefits in Kind £'000**	**Total £'000**
Michael Edelson	40	-	40	40	-	40
Christopher Evans (resigned 30 November 2017)	90	-	90	96	-	96
Michael Hogan (resigned 1 December 2016)	-	-	-	80	-	80
Julie Joyce (resigned 15 August 2016)	-	-	-	126	2	128
Julian Llewellyn (appointed 6 April 2017)	135	2	137	-	-	-
Adam Binks (appointed 31 October 2017)	48	-	48	-	-	-
Robert Khalastchy	12	-	12	12	-	12
Mark Quartermaine (appointed 7 November 2017)	13	-	13	-	-	-

Directors' Remuneration Report Continued

Director	2018 Salary £'000	2018 Benefits in Kind £'000	2018 Total £'000	2017 Salary £'000	2017 Benefits in Kind £'000	2017 Total £'000
Amy Yateman-Smith (resigned 23 October 2017)	23	-	23	21	-	21
Mike Fletcher (appointed 8 January 2018)	8	-	8	-	-	-
Total Remuneration	**369**	**2**	**371**	**375**	**2**	**377**

The following pension contributions were paid within the year:

Director	2018 Total £'000	2017 Total £'000
Christopher Evans	5	5
Julian Llewellyn	6	-
Adam Binks	6	-
Michael Hogan	-	1

Directors' Interests in Ordinary Shares of SysGroup plc

The Directors in office at the end of the year had interests in the ordinary share capital of the company as shown below:

Director	Number of Ordinary Shares	Percentage Interest
Michael Edelson	726,600	3.14%
Adam Binks	129,843	0.56%
Julian Llewellyn	37,499	0.16%
Robert Khalastchy	6,346	0.13%

Directors' Interests in Share Options

The Directors had interests in options over ordinary shares of the Company at the end of the year as shown below:

Director	Total Options Over Ordinary Shares	Grant Date	Expiry Date
Robert Khalastchy	7,500	19/12/2012	18/12/2022
Julian Llewellyn	125,000	06/04/2017	05/04/2027

Directors' Remuneration Report Continued

Directors' Warrants

The Directors held the following warrants over the ordinary shares of the Company at the end of the year as follows:

Director	Exercise Price	No. of Warrants	Grant Date	Expiry Date
Michael Edelson	200p	2,500	09/01/2012	08/01/2022

Michael Edelson's warrants are exercisable at any time before 8 January 2022, provided that the Company may require the exercise of these warrants if its shares are traded at a price in excess of 320p per share for a period of 60 business days and an aggregate value of bargains exceeding £60,000 occurs over that period.

Corporate Governance Report

Corporate Governance Report

Introduction

The Directors recognise the importance of, and are committed to, high standards of corporate governance. Although compliance with the UK Corporate Governance Code is not compulsory for AIM companies, and therefore the Directors do not claim compliance with the code, the Directors intend to apply the principles as they consider appropriate to a public company of the size of SysGroup plc quoted on AIM, considering the recommendations contained in the Quoted Companies Alliance Guidelines.

Board of Directors

The Board comprises six Directors - two Executives and four Non-Executives - and reflects a blend of different experience and backgrounds. The Chairman (which is a Non-Executive position) took on the role of Interim Executive Chairman after the resignation of Chris Evans on 30 November 2017. Subsequently, on 3 April 2018, Adam Binks was promoted to Chief Executive Officer and from then the roles have now been split by the Board and there is a clear division of responsibility between the two. The Board considers Michael Edelson, Robert Khalastchy, Mark Quartermaine and Michael Fletcher to be independent in character and judgement notwithstanding their shareholding and/or share warrants in the Group. The Board, through the Chairman and the Non-Executive Directors as well as the Executive Directors, maintains regular contact with its advisers and seeks to ensure that the Board develops an understanding of the views of the major shareholders about the Company. The Board meets regularly throughout the year and is responsible for formulating, reviewing and approving the Company's strategy, financial activities and operating performance. Day-to-day management is delegated to the Executive Directors who are charged with consulting the Board on all significant matters. Consequently, decisions are made promptly following consultation amongst the Directors concerned where necessary and appropriate. All necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively and all Directors have access to independent professional advice at the Company's expense, as and when required. The Chairman is available to meet with institutional shareholders to discuss any issues and concerns regarding the Group's governance. The participation of the private and institutional investors at the AGM is welcomed by the Board.

Internal Controls

The Directors acknowledge their responsibility for the Company's and the Group's systems of internal controls, which are designed to safeguard the assets of the Group and ensure the reliability of financial information for both internal use and external publication. Overall control is achieved by a regular detailed reporting system covering both technical progress of a project and the state of the Group's financial affairs. Any system of internal controls can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected or that risk of failure to achieve business objectives is eliminated. The Directors consider that the system of internal controls operated effectively throughout the financial year and up to the date the financial statements were signed. Based on the size and complexity of the Group, the Board of Directors do not consider that there is a need for any internal audit function.

Corporate Governance Report Continued

Committees

Audit Committee

The Company has established an Audit Committee that comprises of Michael Edelson, Mark Quartermaine and Mike Fletcher. Mike Fletcher is the Chairman of this Committee. The Audit Committee meets at least twice a year and is responsible for reviewing the integrity of the financial statements of the Group, the Group's compliance with legal and regulatory requirements, and the adequacy and effectiveness of the Group's internal financial controls and risk management processes including the extent to which internal audit review is required. It reviews the external auditors' performance and independence and makes recommendations to the Board on the appointment of the auditors.

Remuneration Committee

The Company has established a Remuneration Committee that comprises Michael Edelson, Robert Khalastchy, Mike Fletcher and Mark Quartermaine. Mark Quartermaine is the Chairman. The Committee meets at least twice a year and is responsible for determining and reviewing with the Board the policy for the remuneration of the Executive Directors and such other members of the executive management it is designated to consider. Within the terms of the agreed policy, it determines the total individual remuneration of the Executive Directors. The Remuneration Committee also approves the design of, and determines targets for, any performance related pay schemes, reviews the design of any share incentive plans, determines the awards to the Executive Directors and determines the policy for, and scope of, pension arrangements for each Executive Director.

Rule 21 of The AIM Rules for Companies and MAR ("Market Abuse Regulation")

The Group will comply with Rule 21 of the AIM Rules (as amended to incorporate the provisions of MAR) relating to dealing during close periods. The Group has a reasonable and effective dealing policy in place. All employees are notified when the company enters and exits close periods but the dealing code in any event requires that an employee seek permission from certain designated people before trading in the shares of the Group. The Market Abuse Regulation (MAR) came into effect on 3 July 2016. It aims to increase market integrity and investor protection, enhancing the attractiveness of securities markets for capital raising.

Human Resources

The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake. The Group has a range of policies which are aimed at retaining and providing incentives for key staff. Objectives are set for departments and employees that are derived from the Group's business objectives. The Group has a clear and well-understood organisational structure and each employee knows his or her line of accountability.

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report of the Director's and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on Alternative Investment Market.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Financial Statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the Financial Statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board

Julian Llewellyn
Company Secretary
27 June 2018

Independent Auditor's Report to the Members of SysGroup plc

Independent Auditor's Report to the Members of SysGroup plc

Opinion

We have audited the financial statements of SysGroup plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2018 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the Company statement of financial position, the consolidated statement of changes in equity, the Company statement of changes in equity, the consolidated statement of cashflows, the Company statement of cashflows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report to the Members of SysGroup plc Continued

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition	How we addressed the key audit matter in the audit
The Group has two main revenue streams, each of which has a different revenue recognition policy dependent on the specific terms of the transfer of goods or the service provision. Judgements are involved in determining the appropriate timing of revenue recognition and in the unbundling of contracts that relate to the provision of more than one service and/or product. In view of the judgements required to be made by management in this area we have determined that revenue recognition is a significant risk of material misstatement in the audit, specifically over the existence of reported revenues, and hence a key audit matter. Refer to note 1 for the revenue accounting policy and note 4 of the financial statements for disclosure.	We performed detailed testing, on a sample basis, of sales transactions across the year for each significant revenue stream by agreeing balances to underlying calculations, contracts and purchase orders to provide evidence for the existence of recorded transactions. This included a sample of bundled contracts. We performed detailed cut off procedures to test transactions around the year end and agreed a sample of sales to originating documentation such as contracts, purchase orders and delivery documentation to provide evidence that transactions were recorded in the correct period.

Independent Auditor's Report to the Members of SysGroup plc Continued

Acquisition accounting	How we addressed the key audit matter in the audit
The financial statements for the year ended 31 March 2018 include the acquisition accounting for Rockford IT Limited. Management has prepared detailed calculations to determine the fair value of the assets acquired and the acquisition consideration. The difference between this consideration and the net assets acquired, including the recognition of intangible assets is goodwill which is required to be tested annually for impairment. A valuation of intangible assets acquired has been performed by management. Significant judgement is involved in determining the fair value. In view of the judgements required to be made by management in this area, we have determined that the calculation of goodwill and the valuation of other intangible assets identified in the acquisition of Rockford IT Limited in the year is a significant risk of material misstatement in the audit and hence a key audit matter. Refer to note 1 for the business combinations and intangible assets accounting policies and notes 10 and 13 of the financial statements for disclosure.	We tested the acquisition balance sheet by agreeing items to supporting documentation such as management accounts, invoices and contracts and assessed the fair value adjustments made by management. We considered if other adjustments or alignment of accounting policies were required. In particular, we tested the fair value ascribed to the customer relationships intangible asset by understanding the assumptions adopted in the valuation model. In testing the impairment review prepared by management, we have specifically reviewed the discount rate used to discount expected future cash flows and compared this to an independently obtained discount rate. We also tested the appropriateness of those cash flows used in the calculation attributed to the individual cash generating unit. Sensitivity analysis was performed on the calculations. We engaged our internal specialists to assist us in challenging the appropriateness of the underlying assumptions in the above procedures.

Our Application of Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group Materiality:	£78,000 (2017: £61,000)
Basis for Materiality:	0.75% of revenue (2017: 1% of revenue)

Rationale for the benchmark adopted: The Group has made a small loss in the year and a relatively low level of profit in relation to its revenue in the prior year. Therefore, a profit measure is not considered to be suitable. Revenue is the most stable and relevant alternative measure and the percentage determined was considered appropriate for a listed entity.

Parent Company Materiality:	£70,200 (2017: £45,750)
Basis for Materiality:	0.5% of gross assets (2017: 0.4% of gross assets)

Rationale for the benchmark adopted: The Parent Company does not recognise any external revenue and so an asset measure is considered appropriate.

Independent Auditor's Report to the Members of SysGroup plc Continued

In considering individual account balances and classes of transactions we apply a lower level of materiality (performance materiality) in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors), the amount of areas of estimation within the financial statements and the type of audit testing to be completed. Group performance materiality was set at £58,500 (2017: £45,750), and Parent Company performance materiality was set at £52,650 (2017: £34,313) representing 75% of materiality.

For each component in the Group audit we allocated a planning materiality lower than our overall Group planning materiality in the range of £16,125 to £52,650 with a similar restriction of 75% for performance materiality. The materiality level was calculated by reference to a proportion of Group materiality appropriate to the relative scale of the component concerned.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £3,120 (2017: £1,220). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An Overview of the Scope of Our Audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Our Group audit scope focused on the Group's components in the United Kingdom and United States of America. The components in the United Kingdom were each subject to a full scope audit by BDO LLP. The component in the United States of America, which we considered to be not significant, was subject to a desktop review.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report to the Members of SysGroup plc Continued

Matters on Which We Are Required to Report by Exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of Our Report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Independent Auditor's Report to the Members of SysGroup plc Continued

BDO LLP

Gary Harding
Senior Statutory Auditor
27 June 2018

For and on behalf of BDO LLP
Statutory Auditor
Manchester
United Kingdom

BDO LLP is a limited liability partnership registered in England and Wales
(with registered number OC305127)

Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2018

	Notes	2018 Group £'000	2017* Group £'000
Revenue			
Total group revenue – continuing and discontinued operations	4	10,451	7,865
Revenue – discontinued operations		-	700
Revenue – continuing operations		**10,451**	**7,165**
Cost of sales		(4,456)	(2,783)
Gross profit		**5,995**	**4,382**
Operating expenses before depreciation, amortisation, acquisition and restructuring costs, fair value adjustment and share based payments		(4,995)	(3,767)
Adjusted EBITDA - continuing		**1,000**	**618**
Depreciation	14	(372)	(324)
Amortisation of intangibles	13	(500)	(326)
Acquisition and restructuring costs	8	(581)	(791)
Fair value adjustments	3	540	(498)
Share based payments	9	(10)	-
Administrative expenses		(5,918)	(5,706)
Profit/(loss) from operations		**77**	**(1,324)**
Finance costs	6	(84)	(27)
Loss before taxation		(7)	(1,351)
Taxation	12	245	20
Profit/(loss) from continuing operations		**238**	**(1,331)**
Profit from discontinued operations – net of income tax	23	**-**	**1,508**
Total comprehensive profit attributable to the equity holders of the company		**238**	**177**
Basic earnings per share (EPS)	11	£0.0103	£0.0090
Diluted earnings per share (EPS)	11	£0.0102	£0.0088

*Restated - note 22

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position

As at 31 March 2018

	Notes	2018 Group £'000	2017* Group £'000
Assets			
Non-current assets			
Goodwill	13	9,727	7,620
Intangible assets	13	3,094	1,617
Property, plant and equipment	14	809	666
		13,630	**9,903**
Current assets			
Trade and other receivables	16	1,624	1,311
Cash and cash equivalents		1,315	3,473
		2,939	**4,784**
Total Assets		**16,569**	**14,687**
Equity and Liabilities			
Equity attributable to the equity shareholders of the parent			
Called up share capital	21	231	231
Share premium reserve		-	-
Other reserve		2,010	2,000
Translation reserve		4	4
Retained earnings		9,092	8,854
		11,337	**11,089**
Non-current liabilities			
Obligations under finance leases	19	128	184
Contingent consideration due on acquisitions	17	-	690
Bank loan	18	1,742	-
Deferred taxation	12	674	365
		2,544	**1,239**

*Restated - notes 21 and 22

Consolidated Statement of Financial Position Continued

	Notes	2018 Group £'000	2017* Group £'000
Current liabilities			
Trade and other payables	17	1,900	1,671
Deferred Income	17	425	465
Bank loan	18	216	-
Obligations under finance leases	19	147	223
		2,688	**2,359**
Total Equity and Liabilities		**16,569**	**14,687**

*Restated - notes 21 and 22

The financial statements on pages 37 to 82 were approved by the Board and authorised on 27 June 2018.

Julian Llewellyn
Director

Registered number 06172239

Company Statement of Financial Position

Company Statement of Financial Position

As at 31 March 2018

	Notes	2018 Company £'000	2017* Company £'000
Assets			
Non-current assets			
Investments	15	14,279	10,429
Intangible assets	13	25	-
Property, plant and equipment	14	54	56
		14,358	**10,485**
Current assets			
Trade and other receivables	16	135	100
Cash and cash equivalents		115	2,077
		250	**2,177**
Total Assets		**14,608**	**12,662**
Equity and Liabilities			
Equity attributable to the equity shareholders of the parent			
Called up share capital	21	231	231
Share premium reserve		-	-
Other reserve		2,010	2,000
Retained earnings		7,533	8,059
		9,774	**10,290**
Non-current liabilities			
Contingent consideration due on acquisitions	17	-	690
Bank loan	18	1,742	-
		1,742	**690**
Current liabilities			
Bank loan	18	216	-
Amounts due to subsidiary undertakings		2,584	1,531
Trade and other payables	17	292	151
		3,092	**1,682**
Total Equity and Liabilities		**14,608**	**12,662**

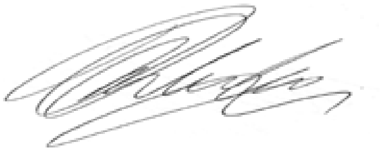
*Restated - notes 21 and 22

Company Statement of Financial Position Continued

As permitted by section 408 of the Companies Act 2006, the holding company's profit and loss statement has not been included in the financial statements.

For the year ended 31 March 2018, the Company made a loss of £526,783 (2017: loss of £85,672)

The financial statements were approved by the Board and authorised on 27 June 2018.



Julian Llewellyn
Director

Registered number 06172239

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity

For the year ended 31 March 2018

	Attributable to equity holders of the parent					
	Share capital £'000	Share premium account £'000	Other reserve £'000	Translation reserve £'000	Retained profit £'000	Total £'000
At 1 April 2016	**2,552**	**6,493**	**1,008**	**-**	**(5,118)**	**4,935**
Profit for the period	-	-	-	-	378	378
Translation of foreign subsidiaries	-	-	-	4	-	4
Issue of share capital - placing	1,686	3,367	-	-	-	5,053
Issue of share capital - consideration	382	-	616	-	-	998
Expenses of share issue	-	(277)	-	-	-	(277)
Capital reorganisation	-	(9,583)	-	-	9,583	-
Movement in share option reserve	-	-	(2)	-	-	(2)
At 31 March 2017 (as previously reported)	**4,620**	**-**	**1,622**	**4**	**4,843**	**11,089**
Treatment of the premium on placing shares (note 22)	(180)	-	180	-	-	-
Capital reorganisation (note 22)	(4,209)	-	-	-	4,209	-
Q4Ex - contingent consideration (note 22)	-	-	198	-	(198)	-
At 31 March 2017 (as restated)	**231**	**-**	**2,000**	**4**	**8,854**	**11,089**
Profit for the period	-	-	-	-	238	238
Share based payments	-	-	10	-	-	10
At 31 March 2018	**231**	**-**	**2,010**	**4**	**9,092**	**11,337**

Consolidated Statement of Changes in Equity Continued

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share Premium Reserve	Amount subscribed for share capital in excess of nominal values.
Other Reserve	Amount reserved for share based payments to be released over the life of the instruments and the equity element of convertible loans and amounts in excess of nominal value for shares issued as consideration.
Accumulated losses	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

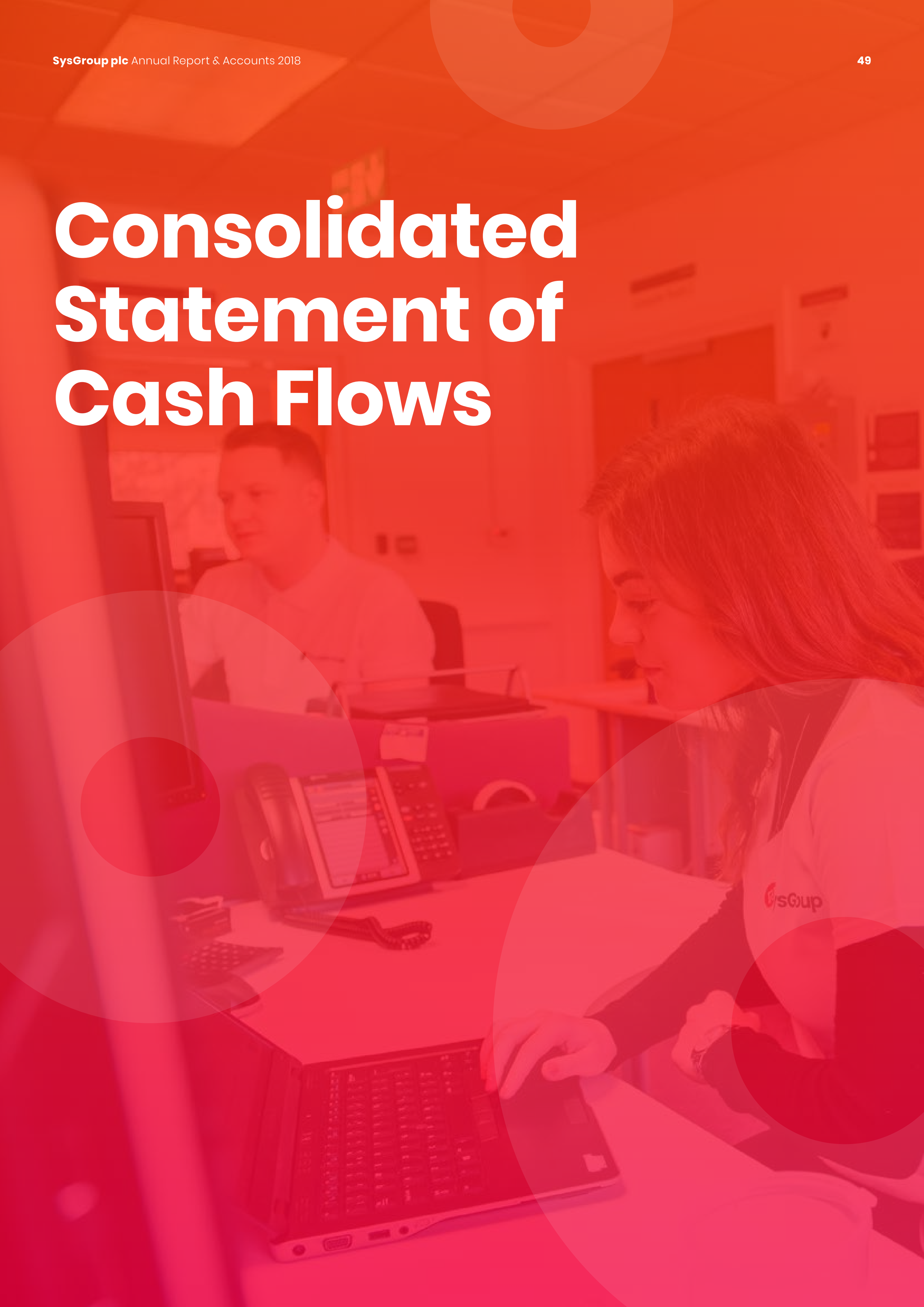
Company Statement of Changes in Equity

Company Statement of Changes in Equity

For the year ended 31 March 2018

	Attributable to equity holders of the Company				
	Share capital £'000	**Share premium reserve £'000**	**Other reserve £'000**	**Accumulated losses £'000**	**Total £'000**
At 1 April 2016	**2,552**	**6,493**	**1,008**	**(5,447)**	**4,606**
Loss for the period	-	-	-	(86)	(86)
Issue of share capital - share placing	1,686	3,367	-	-	5,053
Issue of share capital - consideration shares	382	-	616	-	998
Expenses of share issue	-	(277)	-	-	(277)
Capital reorganisation	-	(9,583)	-	9,583	-
Movement in share option reserve	-	-	(2)	(2)	(4)
At 31 March 2017 (as previously reported)	**4,620**	**-**	**1,622**	**4,048**	**10,290**
Treatment of the premium on placing shares (note 22)	(180)	-	180	-	-
Capital reorganisation (note 22)	(4,209)	-	-	4,209	-
Q4Ex - contingent consideration (note 22)	-	-	198	(198)	-
At 31 March 2017 (as restated)	**231**	**-**	**2,000**	**8,059**	**10,290**
Loss for the period	-	-	-	(526)	(526)
Share based payments	-	-	10	-	10
At 31 March 2018	**231**	**-**	**2,010**	**7,533**	**9,774**

Consolidated Statement of Cash Flows



Consolidated Statement of Cash Flows

For the year ended 31 March 2018

	2018 Group £'000	2017* Group £'000
Cash flows used in operating activities		
Profit after tax	238	177
Profit net of tax - discontinued operations	-	(1,508)
Adjustments for:		
Depreciation and other amortisation	872	650
Fair Value adjustment on contingent consideration	(540)	501
Finance costs	84	27
Acquisition costs	581	791
Share based payments	10	-
Taxation	(245)	(20)
Operating cash flows before movement in working capital	**1,000**	**618**
Decrease / (increase) in trade and other receivables	190	(163)
(Decrease) / increase in trade and other payables	(405)	544
Taxation refunded/ (paid)	80	(197)
Cash generated from operations	**865**	**802**
Cash flows from investing activities		
Payments to acquire property, plant & equipment	(212)	(380)
Acquisition and integration costs	(592)	(742)
Deferred consideration	(150)	-
Payments to acquire intangible assets	(3,523)	(3,425)
Net cash used in investing activities	**(4,477)**	**(4,547)**
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	-	4,722
Repayment of loan facility	-	(105)
Interest element on acquisition loan	(49)	-
Interest element of finance lease payments	(17)	(27)
Drawdown of acquisition facility (net of fees)	1,940	-
Drawdown of finance lease facility	-	189

*Restated

Consolidated Statement of Cash Flows Continued

	2018 Group £'000	2017* Group £'000
Capital repayment of finance leases	(228)	(153)
Net cash from financing activities	**1,646**	**4,626**
Net (decrease)/ increase in cash and cash equivalents from continuing operations	**(1,966)**	**881**
Cash flows from discontinued operations		
Net cash used for operating activities	(192)	99
Net cash provided for investing activities	-	1,987
Net cash used for financing activities	-	(7)
Net (decrease)/ increase in cash and cash equivalents from discontinued operations	**(192)**	**2,079**
Cash and cash equivalents at the beginning of the year	**3,473**	**513**
Cash and cash equivalents at the end of the year	**1,315**	**3,473**

*Restated

Company Statement of Cash Flows

Company Statement of Cash Flows

For the year ended 31 March 2018

	2018 Company £'000	2017* Company £'000
Cash flows used in operating activities		
Loss after tax	(526)	(86)
Adjustments for:		
Depreciation and other amortisation	26	15
Fair Value adjustment on contingent consideration	(540)	300
Impairment of investments	-	1,099
Finance costs	67	-
Acquisition and restructuring costs	316	791
Share based payments	10	-
Taxation	(3)	-
Operating cash flows before movement in working capital	**(650)**	**2,119**
Increase in trade and other receivables	(19)	(66)
Increase in trade and other payables	1,188	86
Taxation refund received	3	-
Cash generated from operations	**522**	**2,139**
Cash flows from investing activities		
Payments to acquire property, plant and equipment	(24)	(37)
Payments to acquire intangible fixed assets	(25)	-
Acquisition and restructuring costs	(476)	(742)
Payments for acquisitions	(3,850)	(3,720)
Net cash used in investing activities	**(4,375)**	**(4,499)**
Cash flows from financing activities		
Net proceeds from issue ordinary share capital	-	4,722
Received from subsidiary company	-	(297)
Drawdown of acquisition facility (net of fees)	1,940	-
Interest element on acquisition loan	(49)	-
Net cash from financing activities	**1,891**	**4,425**
Net (decrease)/ increase in cash and cash equivalents from continuing operations	**(1,962)**	**2,065**
Cash and cash equivalents at the beginning of the year	**2,077**	**12**
Cash and cash equivalents at the end of the year	**115**	**2,077**

*Restated

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

For the year ended 31 March 2018

1. Accounting Policies

SysGroup plc (the 'Company') is a company incorporated and domiciled in the United Kingdom. The company's registered office is at Walker House, Exchange Flags, Liverpool, L2 3YL. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the 'Group').

Statement of Compliance

These Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as endorsed by the European Union ("endorsed IFRS") and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under endorsed IFRS.

Basis of Preparation

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial liabilities which have been valued in accordance with IAS 39.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 2. The financial statements are presented in pounds sterling, rounded to the nearest thousand, unless otherwise stated.

Going Concern

The Directors have prepared the financial statements on a going concern basis which assumes that the Group and the company will continue to meet liabilities as they fall due. The Directors have reviewed forecasts prepared for the period ending 31 March 2020 and considered the projected trading forecasts and resultant cash flows together with confirmed loan facilities and other sources of finance. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group can continue to operate within the current facilities available to it.

The Directors therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Notes to the Consolidated Financial Statements Continued

New Standards and Interpretations Not yet Adopted

A number of new standards, amendments to standards and interpretations have been issued during the year ended 31 March 2018 but are not yet effective, and therefore have not yet been adopted by the Group:

- IFRS 15 Revenue from Contracts with Customers is effective after 1 January 2018. This standard will change how revenue is recognised based on a framework. The interim accounts to 30 September 2018 will be prepared in accordance with IFRS15. IFRS15 seeks to identify linked revenue transactions and to recognise that revenue over the period in which benefits accrue to the customers. The potential impact on the Group has been assessed by management and there is not currently expected to be a significant impact.
- Amendments to IAS12 'Recognition of Deferred Tax Assets for Unrealised Losses' have not yet been endorsed but the IASB effective date will be 1 January 2018.
- IFRS 9 'Financial Instruments' is effective from 2018. This standard will simplify the classification of financial assets for measurement purposes but is not anticipated to have a significant impact on the financial statements.
- IFRS 16 Leases is expected to be applicable after 1 January 2019. If endorsed, this standard will affect the presentation of the Group financial statements with all leases apart from short term leases being recognised as on-balance sheet finance leases with a corresponding liability being the present value of lease payments. The potential impact on the Group has not yet been assessed by management.

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future reporting periods.

The adoption of these standards does not have an impact on the results and net assets of the Group.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group. Revenue represents the fair value of amounts received or receivable for goods and services provided net of trade discounts and VAT. Revenue from the sale of managed IT services and cloud hosting is recognised evenly over the life of the contract as benefits accrue to the customer. Revenue from value added resale is recognised as these products or services are delivered. This revenue policy also applies to Rockford IT Ltd, acquired during the year.

Basis of Consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee; exposure to variable returns from the investee; and the ability of the investor to use its power to affect those variable returns. Control is re-assessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquirer's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

Notes to the Consolidated Financial Statements Continued

Business Combinations

All business combinations are accounted for by applying the purchase method. On acquisition, all the subsidiaries' assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting the conditions at that date. The results of subsidiaries acquired in the period are included in the income statement from the date on which control is obtained.

Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised but is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. In determining the fair value of consideration, the fair value of equity issued is the market value of equity at the date of completion, and the fair value of contingent consideration is based on the expected future cashflows based on whether the Directors believe performance conditions will be met and thus the extent to which the further consideration will be payable. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Impairment of Non-Financial Assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest Group of assets in which the asset belongs for which there are separable identifiable cash flows that are largely independent of the cash flows from the other assets or Groups of assets). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the consolidated statement of comprehensive income. The results of foreign subsidiaries that have a functional currency different from the group's presentation currency are translated at the average rates of exchange for the year. Assets and liabilities of foreign subsidiaries that have a functional currency different from the group's presentation currency, are translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising from the translation of the results of foreign subsidiaries and their opening net assets are recognised as a separate component of equity.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

Notes to the Consolidated Financial Statements Continued

Financial Instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Financial Assets

The Group's financial assets comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position. Trade receivables are stated at their nominal value and an impairment provision will be recognised if there is evidence that the amount is irrecoverable and will be shown in administrative expenses in the Consolidated Statement of Comprehensive Income. Cash and cash equivalents includes cash in hand and deposits held at call with banks.

Share Capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares are classified as equity instruments and are recorded at the proceeds received, net of direct issue costs. Proceeds of any share issue in excess of the nominal value of the share capital is recognised within the share premium account.

Financial Liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which it was acquired. The Group's accounting policy for each category is as follows:

- **Fair Value Through Profit or Loss** – This category comprises only contingent consideration. They are carried in the statement of financial position at fair values with changes in fair value recognised in the consolidated income statement.
- **Other Financial Liabilities** – Other financial liabilities include trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Fair Value Measurement Hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value to reflect the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

a. Quoted prices in active markets for identical assets or liabilities (Level 1)
b. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
c. Inputs from the asset or liability that are not based on observable market data (Level 3)

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Share Based Payments

The fair value of employee options, along with any share warrants granted, is charged to the consolidated statement of comprehensive income with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of

Notes to the Consolidated Financial Statements Continued

the options granted is measured using the Black Scholes pricing model, considering the terms and conditions upon which the options were granted. The fair value of warrants is also reviewed to the extent that exercise of the warrants is considered likely.

Leases

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in payables net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the consolidated statement of comprehensive income so as to produce a constant periodic rate of charge on the net obligation outstanding in each period. Rentals payable under operating leases are charged against income on a straight-line basis over the lease term.

Property Plant and Equipment

Items of property, plant and equipment are stated at cost less depreciation. Depreciation is provided at annual rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

IT hardware	20% – 33.3% straight line
Furniture and fittings	20% – 33.3% straight line
Motor vehicles	25% straight line

Investment in Subsidiaries

Fixed asset investments in the Parent Company are shown at cost less any provision for impairment as necessary.

Research and Development

Research expenditure is written off to the consolidated statement of comprehensive income in the year in which the expenditure occurs. Development expenditure is treated in the same way unless the Directors are satisfied as to the technical, commercial and financial viability of individual projects, there is an intention to complete and sell the product and the costs can be easily measurable. In this situation, the expenditure is capitalised and the amortised expense is included in administrative expenses in the Consolidated Statement of Comprehensive Income over the years during which the Group is to benefit.

Intangible Assets

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements below).

The significant intangibles recognised by the Group, their estimated useful economic lives and the methods used to determine the cost of intangibles acquired in business combinations are as follows:

Intangible asset	Estimated UEL	Valuation method
Customer relationships	5-7 years	Estimated discounted cash flow
Software and web design costs	3-5 years	Cost less amortisation

Notes to the Consolidated Financial Statements Continued

Deferred Taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is highly probable that relief against taxable profit will be available.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Deferred tax liabilities are recognised on intangible assets and other temporary differences recognised in business combinations.

2. Significant Accounting Estimates and Judgements

The preparation of this financial information requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities at the period end date and the amounts reported for revenues and expenses during each period. However, the nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below.

Revenue

Management make judgements in determining the appropriate timing of revenue recognition and in unbundling contracts that relate to the provision of more than one service and/or product.

Impairment of Goodwill and Other Intangibles

The Group tests goodwill for impairment on an annual basis in line with the accounting policy noted above. This involves judgement regarding the future development of the business and the estimation of the level of future profitability and cash flows to support the carrying value of goodwill. An impairment review has been performed at the reporting date, taking into account sensitivities around future business performance, covering a range of outcomes and risks over levels of revenue, cost and cash generation. No impairment has been identified. More details including carrying values are included in note 13.

Notes to the Consolidated Financial Statements Continued

Impairment of Other Assets

The Group reviews the carrying value of all other assets for indications of impairment at each period end. If indicators of impairment exist, the carrying value of the asset is subject to further testing to determine whether its carrying value exceeds its recoverable amount.

Valuation of Intangibles Acquired in Business Combinations

Determining the fair value of customer relationships acquired in business combinations requires estimation of the value of the cash flows related to those relationships and a suitable discount rate in order to calculate the present value. More details including carrying values are included in note 13.

Valuation of Contingent Consideration

When valuing the contingent consideration still payable on acquisitions, the Group considers various factors including the performance of the acquired entity since acquisition together with its expected performance to the end of the earn-out period. Following the adoption of IFRS 3 (revised) – Business Combinations, contingent consideration is recognised at, and carried thereafter at, fair value. All changes in fair value (other than measurement period adjustments) are reflected in the income statement.

Useful Economic Lives of Intangible Assets

Intangible assets are amortised over their useful economic lives. Useful lives are based on management's estimates of the period over which the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in changes in the carrying values and hence amounts charged to the income statement in particular periods which could be significant.

3. Financial Instruments – Risk Management

The Group's financial instruments comprise cash and liquid resources and various items such as trade receivables and trade payables that arise directly from its operations. There have been no substantive changes in the Group's objectives, policies and processes for managing those risks or the methods used to measure them from previous periods. The Group's objective is to ensure adequate funding for continued growth and expansion.

All the Group's financial instruments are carried at amortised cost with the exception of contingent consideration. There is no material difference between the carrying and fair value of its financial instruments, in the current or prior year, due to the instruments bearing interest at fixed rates or being of short term nature.

A summary of financial instruments held by category is shown below:

	Group		Company	
Financial assets	**2018 £'000**	**2017 £'000**	**2018 £'000**	**2017 £'000**
Loans and receivables				
Cash and cash equivalents	1,315	3,473	115	2,077
Trade receivables	1,101	902	-	-
Total financial assets	**2,416**	**4,375**	**115**	**2,077**

Notes to the Consolidated Financial Statements Continued

	Group		Company	
Financial liabilities	**2018 £'000**	**2017 £'000**	**2018 £'000**	**2017 £'000**
At amortised cost				
Trade and other payables	1,377	1,349	262	134
Amounts due to subsidiaries	-	-	2,584	1,531
Loans and other borrowings	2,233	407	1,958	-
At fair value	**3,610**	**1,756**	**4,804**	**1,665**
Contingent consideration	-	690	-	690
Total financial liabilities	**3,610**	**2,446**	**4,804**	**2,355**

Per the fair value hierarchy classifications under IFRS 7 Financial Instruments the contingent consideration due on acquisitions shown above are considered to be level 3 financial liabilities as there are no observable inputs for valuation.

	Group £'000	**Company £'000**
Contingent consideration At 1 April 2016	**435**	**435**
Settled during the year	(243)	(243)
Notional interest charged	116	116
Fair value adjustment through income statement	382	382
At 31 March 2017	**690**	**690**
Settled during the year	(150)	(150)
Notional interest charged	16	16
Fair value adjustment through Income Statement	(556)	(556)
At 31 March 2018	**-**	**-**

The fair value adjustment related to the change in fair value calculation of the contingent consideration payable on the System Professional acquisition.

Liquidity Risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to prepare periodic working capital forecasts, allowing an assessment of the cash requirements of the Group and Company, to manage liquidity risk. Cash resources are managed in accordance with planned expenditure forecasts and the Directors have regard to the maintenance of sufficient cash resources to fund the Group and Company's immediate operating requirements and capital expenditure.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

Notes to the Consolidated Financial Statements Continued

Group **At 31st March 2018**	**Up to 3 months £'000**	**Between 3 and 12 months £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Trade and other payables	1,377	–	–	–	–
Contingent consideration	–	–	–	–	–
Loans and borrowings	91	272	1,826	44	–
Total	**1,468**	**272**	**1,826**	**44**	**–**

Group **At 31st March 2017**	**Up to 3 months £'000**	**Between 3 and 12 months £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Trade and other payables	1,349	–	–	–	–
Contingent consideration	–	–	690	–	–
Loans and borrowings	56	167	136	48	–
Total	**1,405**	**167**	**826**	**48**	**–**

Company **At 31st March 2018**	**Up to 3 months £'000**	**Between 3 and 12 months £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Trade and other payables	262	–	–	–	–
Amounts due to subsidiaries	2,584	–	–	–	–
Contingent consideration	–	–	–	–	–
Loans and borrowings	52	164	1,742	–	–
Total	**2,898**	**164**	**1,742**	**–**	**–**

Company **At 31st March 2017**	**Up to 3 months £'000**	**Between 3 and 12 months £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Trade and other payables	134	–	–	–	–
Amounts due to subsidiaries	1,531	–	–	–	–
Contingent consideration	–	–	690	–	–
Total	**1,665**	**–**	**690**	**–**	**–**

Notes to the Consolidated Financial Statements Continued

Interest Rate Risk

The Group seeks to minimise exposure to interest rate risk by borrowing at a mix of fixed and floating interest rates appropriate to the nature and term length of borrowings. During the period the Group drew down on a £2m acquisition facility with an interest rate set at LIBOR + 5%.

Credit Risk

The Group generally gives 30-day credit terms on its continuing business and provides against doubtful debts only when recoverability is considered to be at risk. For cash and cash equivalents, the Group only uses recognised banks with high credit ratings.

Capital Disclosures

The Group monitors "adjusted capital" which comprises all components of equity (i.e. share capital, share premium and retained earnings).

The Group's objective when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders in future periods and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

4. Segmental Analysis

The chief operating decision maker for the Group is the Board of Directors. The Group reports in two segments:

- **Managed Services** – this segment provides all forms of managed services to customers. This segment was created on the acquisition of Netplan in November 2013 and has been further expanded with the acquisition of Q4Ex Limited, System Professional Ltd and Rockford IT Limited.
- **Value Added Resale (VAR) of products/services** – this segment provides all forms of VAR sales where the business is acting as a reseller. This segment was created following the acquisition of System Professional Limited and has been further expanded by the acquisition of Rockford IT Limited.

Information regarding the operation of the reportable segments is included below. The performance of each operating segment is based on revenue and gross profit as the Board believe this is the best measure for segmental performance.

Assets and liabilities are not reviewed on a segmental basis. All non-current assets are within the UK. All segments are continuing operations. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between segments are accounted for using an arm's length commercial basis.

Notes to the Consolidated Financial Statements Continued

Revenue by operating segment	**2018 £'000**	**2018 %**	**2017 £'000**	**2017 %**
Managed Services	7,130	68%	5,400	69%
Value Added Reseller	3,321	32%	1,765	22%
SME Mass Market (discontinued)	-	-	700	9%
Total	**10,451**	**100%**	**7,865**	**100%**

No individual customer accounts for more than 10% of the Group's revenue.

The Group operates out of the UK and sells services to the following geographical locations:

	2018 £'000	**2018 %**	**2017 £'000**	**2017 %**
UK	9,437	90%	7,267	92%
Rest of World*	1,014	10%	598	8%
Total	**10,451**	**100%**	**7,865**	**100%**

*The largest components are: France £0.5m; and USA £0.2m

	2018 £'000	**2017 £'000**
Revenue		
SME Mass market - discontinued	-	700
Managed IT Services - continuing	7,130	5,400
Value Added Resale (VAR) - continuing	3,321	1,765
Total	**10,451**	**7,865**
Gross profit		
SME Mass market - discontinued	-	436
Managed IT Services - continuing	5,224	3,932
Value Added Resale (VAR) - continuing	771	450
Total	**5,995**	**4,818**

There were no sales between the two business segments, and all revenue is earned from external customers. The business segments' gross profit is reconciled to profit before taxation as per the consolidated income statement. The Group's overheads are managed centrally by the Board and consequently there is no reconciliation to profit before tax at a segmental level.

Notes to the Consolidated Financial Statements Continued

5. Operating Profit/(Loss)

	2018 £'000	2017 £'000
Operating profit/(loss) is after charging the following:		
Auditor's remuneration:		
Group:		
Audit	49	36
Corporate finance	-	75
Other advisory	5	1
Company:		
Audit	4	4
Depreciation of tangible fixed assets:		
Owned	201	189
Held under finance leases	171	135
Amortisation of intangible assets	500	326
Staff costs (note 7)	3,972	3,622
Share based payments (note 9)	10	-
Rentals payable under operating leases	156	89
Acquisition and restructuring costs	581	791

6. Finance Expense

	2018 £'000	2017 £'000
Interest payable on finance leases	17	27
Interest payable on bank loan	49	-
Arrangement fee amortisation on bank loan	18	-
Total	**84**	**27**

7. Staff Numbers and Costs

The average monthly number of full time persons employed by the Group, including executive Directors during the year was:

	2018	2017
Research and Development	4	6
Technical Support	48	37
Sales and Marketing	11	5
Executive and Administration	11	8
Total	**74**	**56**

Notes to the Consolidated Financial Statements Continued

The aggregate monthly payroll costs including Executive Directors and excluding Non-Executive Directors were as follows:

	2018 £'000	2017 £'000
Wages and salaries	3,548	3,278
Social security costs	365	289
Benefits in kind	22	24
Pension benefits	37	31
Share based payment expense	10	-
Total	**3,982**	**3,622**

Total staff costs for the Company are £836,188 (2017: £580,907).
Average staff numbers for the Company are 14 (2017: 11).

Directors and Key Management Personnel

	2018 £'000	2017 £'000
Fees and salaries	369	375
Social security costs	35	27
Benefits in kind	2	2
Pension benefits contributions	14	6
Share based payment expense	9	-
Total	**429**	**410**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, they are also the Directors of the Company listed on page 18.

The emoluments of the highest paid Director, Julian Llewellyn, were £136,609 (2017: Julie Joyce £128,000).

The Group does not operate a defined benefits pension scheme and Executive Directors who are entitled to receive pension contributions may nominate a defined contribution scheme into which the Company makes pension contributions.

The fees relating to Non-Executive Directors are in some cases payable to third parties in connection with the provision of their services. The balance outstanding at 31 March 2018 was £4,331 (2017: nil).

Notes to the Consolidated Financial Statements Continued

8. Acquisition and Restructuring Costs

	2018 £'000	2017 £'000
Professional fees on acquisition of System Professional Limited	-	414
Professional fees on aborted transaction	-	38
Professional fees on acquisition of Rockford IT Limited	186	-
Integration and restructuring of continuing business*	395	339
Total	**581**	**791**

*Integration and restructuring costs relate to closing and relocating offices/teams, streamlining operations and establishing single front and back office IT platform/systems. This includes costs of £94k (2017: £161k) in relation to the use of internal technical staff and management resources to deliver the changes.

9. Share Based Payments and Warrants

The Company has granted a number of EMI options. The Directors have the discretion to grant options to subscribe for ordinary shares up to a maximum of 10 per cent of the Company's issued share capital. Options can be granted to any employee of the Group. For options to vest the employee has to be employed by the Group at the vesting date. There are no other performance criteria attached to the options. The weighted average exercise price of options in issue is 48.4p per share.

Rights to options over ordinary shares of the Company are summarised as follows:

			No. of Ordinary Shares			
Grant date	Exercise period	Exercise price	At 31 March 2017	Granted	Waived/ lapsed	At 31 March 2018
27/09/2012	27/09/12 to 26/09/15	80p	10,000	-	-	10,000
19/12/2012	19/12/12 to 18/12/22	40p	54,375	-	(54,375)	-
12/12/2013	12/12/13 to 11/12/23	60p	15,625	-	(10,000)	5,625
02/03/2015	02/03/15 to 01/03/25	62.8p	2,500	-	(2,500)	-
14/08/2015	14/08/15 to 13/08/25	68p	25,000	-	(25,000)	-
21/02/2016	21/02/16 to 20/02/26	55.2p	11,875	-	-	11,875
15/08/2016	15/08/16 to 14/08/26	60.5p	3,125	-	(3,125)	-
13/09/2016	13/09/16 to 12/09/26	60.5p	5,000	-	-	5,000
24/08/2017	31/07/07 to 30/07/17	28p	2,232	-	(2,232)	-
06/04/2017	06/04/17 to 05/04/27	47.5p	-	125,000	-	125,000
30/08/2017	30/08/17 to 29/08/27	43p	-	5,000	-	5,000
30/08/2017	30/08/17 to 29/08/27	43p	-	15,000	(15,000)	-
02/03/2018	02/03/18 to 01/03/28	35.5p	-	30,000	-	30,000
Total			**129,732**	**175,000**	**(112,232)**	**192,500**

Notes to the Consolidated Financial Statements Continued

The options have been valued, using the Black Scholes method, using the following assumptions:

Number of instruments granted	10,000	5,625	11,875	5,000	125,000	5,000	30,000
Grant date	27/09/12	12/12/13	21/02/16	13/09/16	06/04/17	30/08/17	02/03/18
Expiry date	26/09/22	11/12/23	20/02/26	12/09/26	05/04/27	29/08/27	01/03/28
Contract term (years)	10	10	10	10	10	10	10
Exercise price	80p	60p	55.2p	60.5p	47.5p	43p	35.5p
Share price at granting	2p	85p	70.8p	60.5p	48p	43p	35.5p
Annual risk-free rate (%)	5%	0.5%	0.5%	0.5%	1.4%	1.4%	1.4%
Annual expected dividend yield (%)	0%	0%	0%	0%	0%	0%	0%
Volatility (%)	50%	90%	55%	55%	36%	36%	36%
Fair value per grant instrument	18.4p	74.46p	47.6p	52.17p	22.77p	20.39p	16.84p

The inputs to the share valuation model utilised at the grant of the option is shown in the tables above. Management has determined volatility using their knowledge of the business.

At 31 March 2018 there were 2,500 outstanding warrants to subscribe for the ordinary share capital of the Company as follows:

		No. of Warrants and Exercise price
Grant date	**Exercise period**	**200p**
09/01/2012	08/01/2022	2,500

The fair value of the warrants has been calculated at 0.36p based on the following assumptions – share price at granting 50p, annual risk-free rate 0.5%, and volatility 20%. No provision has been made for the warrants in shared based payments.

10. Acquisitions

There has been one acquisition during the period. The Board strategically expect acquisitions to be a common component of growth in the future.

Acquisitions made during the year to 31 March 2018 were:

Rockford IT Limited

The Group acquired 100% of the share capital of Rockford IT Limited on 1 November 2017. Rockford provides managed services, cloud hosting, value added resale services, and IT consultancy support.

During the year to 31 March 2018 the Group incurred £186,458 of costs in relation to this acquisition. These costs are included in administrative expenses in the Group's consolidated statement of comprehensive income for the year ended 31 March 2018.

Notes to the Consolidated Financial Statements Continued

The fair value of acquired customer relationships intangible asset has been estimated using a discounted cashflow method, based on the estimated level of profit to be generated from them. A post tax discount rate of 10.3% was used in the valuation. Customer relationships are being amortised over an estimated useful life of 7 years.

Since the acquisition date to 31 March 2018, Rockford IT Limited has contributed £1,796,400 to Group revenue and £278,656 to Group EBITDA. Had the acquisition taken place on 1 April 2017, the contribution to Group revenue would have been £4,250,080 and £701,800 to Group EBITDA.

Recognised amounts of net assets acquired and liabilities assumed	Book value £'000	Fair value adj £'000	Fair value £'000
Cash and cash equivalents	327	-	327
Trade and other receivables	446	34	480
Property, plant and equipment	421	(87)	334
Stock and work in progress	21	-	21
Intangible assets	95	1,850	1,945
Trade and other payables	(791)	(111)	(902)
Current income tax liability	(81)	-	(81)
Deferred tax liability	(66)	(315)	(381)
Identifiable net assets	**372**	**1,371**	**1,743**
Goodwill			2,107
Total consideration			**3,850**
Satisfied by:			
Cash consideration			3,850
Total consideration			**3,850**

11. Earnings Per Share

	Continuing Operations 2018	Discontinued Operations 2018	Total 2018
Profit for the financial year attributable to shareholders	£237,923	-	**£237,923**
Weighted number of equity shares used in basic EPS	23,103,898	-	**23,103,898**
Weighted number of equity shares used in diluted EPS	23,298,898	-	**23,298,898**
Basic earnings per share	£0.0103	-	**£0.0103**
Diluted earnings per share	£0.0102	-	**£0.0102**

Notes to the Consolidated Financial Statements Continued

	(Restated) Continuing Operations 2017	(Restated) Discontinued Operations 2017	(Restated) Total 2017
(Loss)/profit for the financial year attributable to shareholders	(£1,331,054)	£1,508,499	**£177,445**
Weighted number of equity shares used in basic EPS	19,805,397	19,805,397	**19,805,397**
Weighted number of equity shares used in diluted EPS	20,164,861	20,164,861	**20,164,861**
Basic (Loss)/earnings per share	(£0.0672)	£0.0762	**£0.0090**
Diluted (Loss)/earnings per share	(£0.0672)	£0.0748	**£0.0088**

Basic (loss)/earnings per share is calculated by dividing the earnings attributable to equity shareholders by the weighted average of ordinary shares in issue during the year.

For diluted earnings per share, the weighted number of ordinary shares in issue during the year is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion on all the dilutive potential shares into ordinary shares.

12. Taxation

	2018 £'000	2017 £'000
Current tax		
Current tax - current year	32	65
Adjustments in respect of prior years	(126)	-
Tax refund	(80)	-
Total current tax credit	**(174)**	**65**
Deferred tax		
Deferred tax - timing differences	(71)	(123)
Total tax credit	**(71)**	**(123)**
Total current tax credit	**(245)**	**(58)**

Notes to the Consolidated Financial Statements Continued

The effective tax rate for the year to 31 March 2018 is higher (2017: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £'000	2017 £'000
(Loss)/ profit on ordinary activities before tax	**(7)**	**320**
(Loss)/ profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19% (2017:20%)	(1)	65
Effects of:		
Expenses not deductible	33	-
Income not taxable	(106)	-
Prior year adjustment	(126)	-
Deferred tax - timing differences	-	(123)
Re-measurement of deferred tax due to changes in UK rate	5	-
Deferred tax not recognised	(130)	-
Tax refund	80	-
Total tax credit	**(245)**	**(58)**

The Group recognised deferred tax assets and liabilities as follows:

	2018 £'000	2017 £'000
Deferred tax on customer relationships	(588)	(242)
Capital allowances timing differences	(86)	(123)
Deferred tax liability	**(674)**	**(365)**

Recognition of deferred tax assets is restricted to those instances where it is highly probable that relief against taxable profit will be available.

The movement in the deferred tax account during the year was:

	Capital allowances timing differences £'000	Customer relationships £'000	Total £'000
Balance at 1 April 2017	-	(365)	**(365)**
Accelerated capital allowances	(20)	-	**(20)**
Accelerated capital allowances acquired on acquisition of Rockford IT	(66)	-	**(66)**
Deferred tax recognised on customer lists acquired on acquisition of Rockford IT	-	(315)	**(315)**
Credited to statement of comprehensive income	-	92	**92**
Balance at 31 March 2018	**(86)**	**(588)**	**(674)**

Factors affecting future tax charges:

The UK corporation tax rate will change from 19% to 17% on 1 April 2020.

Notes to the Consolidated Financial Statements Continued

13. Intangible Assets

Group	Website Cost £'000	Development Cost £'000	Software Licences £'000	Customer Relationships £'000	Positive Goodwill £'000	Total £'000
At 1 April 2016	**197**	**232**	**61**	**1,914**	**4,454**	**6,858**
Additions	–	–	11	–	–	**11**
Acquired from acquisition	–	–	–	948	3,844	**4,792**
Disposals	–	(232)	–	(479)	(678)	**(1,389)**
At 31 March 2017	**197**	**-**	**72**	**2,383**	**7,620**	**10,272**
At 1 April 2017	**197**	**-**	**72**	**2,383**	**7,620**	**10,272**
Additions	26	–	6	–	–	**32**
Acquired from acquisition (note 10)	–	–	95	1,850	2,107	**4,052**
Disposals	–	–	–	–	–	**-**
At 31 March 2018	**223**	**-**	**173**	**4,233**	**9,727**	**14,356**
Accumulated amortisation and impairment						
At 1 April 2016	**180**	**232**	**8**	**655**	**-**	**1,075**
On disposals	–	(232)	–	(479)	–	**(711)**
Charge for the year	11	–	22	638	–	**671**
At 31 March 2017	**191**	**-**	**30**	**814**	**-**	**1,035**
At 1 April 2017	**191**	**-**	**30**	**814**	**-**	**1,035**
On disposals	–	–	–	–	–	**-**
Charge for the year	7	–	47	446	–	**500**
At 31 March 2018	**198**	**-**	**77**	**1,260**	**-**	**1,535**
Net book value						
At 31 March 2017	**6**	**-**	**42**	**1,569**	**7,620**	**9,237**
At 31 March 2018	**25**	**-**	**96**	**2,973**	**9,727**	**12,821**

The Company had intangible assets of £25,083, comprising website development costs, at 31 March 2018 (2017: Nil)

All amortisation and impairment charges are included in the depreciation, amortisation and impairment of non-financial assets classification, which is disclosed as administrative expenses in the statement of comprehensive income.

During the year, goodwill was reviewed for impairment in accordance with IAS 36 "Impairment of Assets". No impairment charges arose as a result of this review.

Notes to the Consolidated Financial Statements Continued

The recoverable amount is determined based on a discounted cash flow basis and is allocated to individual cash generating units. The calculation uses pre-tax cash flow projections based on financial budgets approved by the Board covering a two-year period. Cash flows beyond the two-year period are extrapolated using the estimated growth rates stated below. The growth rates and margins used to estimate future performance are based on past performance and the experience of growth rates.

The carrying value of each CGU is as follows:

	2018 £'000	2017 £'000
Netplan	4,564	5,348
System Professional	4,710	4,585
Rockford IT	3,892	-
Total	**13,166**	**9,933**

The assumptions used for the impairment reviews are as follows:

	System Professional	Netplan	Rockford IT
Discount rate	10.13%	10.13%	10.13%
Growth rate year 2 to year 5	2.9%	2.9%	2.9%
Terminal growth rate	2.9%	2.9%	2.9%
Forecast period for which cashflows are estimated	2	2	2

The Group had no contractual liability for development costs at 31 March 2018. As a result of the impairment testing carried out on the basis of these estimates and assumptions, no impairment provisions are required.

14. Property Plant and Equipment

Group Cost	Furniture and equipment £'000	Total £'000
At 1 April 2016	**1,491**	**1,491**
Additions	571	**571**
Acquisition of subsidiary	96	**96**
Disposals	(737)	**(737)**
At 31 March 2017	**1,421**	**1,421**
At 1 April 2017	**1,421**	**1,421**
Additions	181	**181**
Acquisition of subsidiary	334	**334**
Disposals	-	**-**
At 31 March 2018	**1,936**	**1,936**

Notes to the Consolidated Financial Statements Continued

Group **Cost**	**Furniture and equipment £'000**	**Total £'000**
Accumulated depreciation		
At 1 April 2016	**1,041**	**1,041**
Charge for the year	337	**337**
On disposal	(623)	**(623)**
At 31 March 2017	**755**	**755**
At 1 April 2017	**755**	**755**
Charge for the year	372	**372**
On disposal	–	**-**
At 31 March 2018	**1,127**	**1,127**
Net book value		
At 31 March 2016	**449**	**449**
At 31 March 2017	**666**	**666**
At 31 March 2018	**809**	**809**

Included in the net book value of £809,000 (2017: £666,000) are assets held under finance leases with a NBV of £322,823 (2017: £340,291).

The depreciation for the year on these assets was £170,143 (2017: £135,000).

Company **Cost**	**Furniture and equipment £'000**	**Total £'000**
At 1 April 2016	**45**	**45**
Additions	36	**36**
Acquisition of subsidiary	–	**-**
Disposals	–	**-**
At 31 March 2017	**81**	**81**
At 1 April 2017	**81**	**81**
Additions	24	**24**
Acquisition of subsidiary	–	**-**
Disposals	–	**-**
At 31 March 2018	**105**	**105**

Notes to the Consolidated Financial Statements Continued

Company **Cost**	**Furniture and equipment £'000**	**Total £'000**
Accumulated depreciation		
At 1 April 2016	**12**	**12**
Charge for the year	13	**13**
On disposal	–	**–**
At 31 March 2017	**25**	**25**
At 1 April 2017	**25**	**25**
Charge for the year	26	**26**
On disposal	–	**–**
At 31 March 2018	**51**	**51**
Net book value		
At 31 March 2016	**33**	**33**
At 31 March 2017	**56**	**56**
At 31 March 2018	**54**	**54**

The Company held no finance leases at 31 March 2018 or at 31 March 2017.

15. Investments

Company	**2018 £'000**	**2017 £'000**
Investment in subsidiaries		
At 1 April 2017	10,429	6,576
Acquisitions (note 10)	3,850	4,952
Impairment following disposals	–	(1,099)
Cost 31 March 2018	**14,279**	**10,429**

Notes to the Consolidated Financial Statements Continued

The Company's subsidiary undertakings all of which are wholly owned and included in the consolidated accounts are:

Undertakings	Registration	Principal activity
SysGroup Trading Limited	England	Managed Services
Netplan Internet Solutions Limited	England	Managed Services
Netplan LLC*	USA	Managed Services
SysGroup (DIS) Limited	England	Managed Services
SysGroup (NH) Limited	England	Managed Services
System Professional Limited	England	Managed Services
SysGroup (EH) Limited	England	Managed Services
Rockford IT Limited	England	Managed Services
Node Group Limited	England	Dormant

*Netplan LLC is a wholly owned subsidiary of Netplan Internet Solutions Ltd

The recoverable amounts have been determined from discounted cash flow calculations based on cash flow projections from approved budgets covering a one-year period to 31 March 2019. The major assumptions can be found in note 13. The impairment charge above relates to the disposal of the SME segment during the prior year.

SysGroup (NH) Limited (Company Number 03963376), SysGroup (EH) Limited (Company Number 05814619), SysGroup (DIS) Limited (Company number 05743110), Project Clover Ltd (Company number 08995906) are taking advantage of the exemption from audit under section 479a of the Companies Act 2006 following the guarantee provided by SysGroup plc under section 479C of the Companies Act 2006.

The registered office of all subsidiaries is the same as the registered office of the parent company with the exception of Netplan LLC whose registered office is c/o USA Corporate Services Inc, 19 West 34Th Street, Suite 1018, New York, 10001.

16. Trade and Other Receivables

Amounts due within one year	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Trade debtors	1,101	-	902	-
Other debtors	-	35	-	-
Prepayments and accrued income	523	100	409	100
Total	**1,624**	**135**	**1,311**	**100**

The Group is not exposed to any significant credit risk from trade receivables. There are no impaired trade receivables which are past due at 31 March 2018 or at 31 March 2017.

Notes to the Consolidated Financial Statements Continued

17. Trade and Other Payables

Amounts due within one year	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Trade payables	893	102	590	36
Amounts due to subsidiaries	–	2,584	–	1,531
Accruals	484	160	653	98
Total financial liabilities, excluding loans and borrowings measured at amortised cost	1,377	2,846	1,243	1,665
Corporation tax	85	–	106	–
Other taxes and social security costs	439	30	322	17
Deferred income	425	–	465	–
Total	**2,326**	**2,876**	**2,136**	**1,682**

Contingent consideration due on acquisitions	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
System Professional Limited	–	–	690	690

The fair value of contingent consideration was based on the present value of cash flows and the market value of the shares to be issued.

To the extent trade payables and other payables are not carried at fair value in the consolidated balance sheet, book value approximates to fair value at 31 March 2018 and 31 March 2017.

Maturity of the financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost is shown in note 3.

18. Loans and Borrowings

Non-Current	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Obligations under finance leases	128	–	184	91
Bank loan*	1,742	1,742	–	–
Total	**1,870**	**1,742**	**184**	**91**

Notes to the Consolidated Financial Statements Continued

Current	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Obligations under finance leases	147	–	223	111
Bank loan*	216	216	–	–
Other loan	–	–	–	105
Total	**363**	**216**	**223**	**216**

*The bank loan is fully secured by a debenture over SysGroup plc and its subsidaries and interest charged at LIBOR + 5% per annum.

19. Leases

Group Finance Leases

Future lease payments are due as follows:

	Minimum lease payments 2018 £'000	Interest 2018 £'000	Present value 2018 £'000
Not later than one year	158	11	147
Later than one year and not later than 5 years	134	6	128
Later than 5 years	–	–	–
Total	**292**	**17**	**275**

	Minimum lease payments 2017 £'000	Interest 2017 £'000	Present value 2017 £'000
Not later than one year	235	12	223
Later than one year and not later than 5 years	189	5	184
Later than 5 years	–	–	–
Total	**424**	**17**	**407**

Notes to the Consolidated Financial Statements Continued

Group Operating Leases

The total future value of minimum lease payments is due as follows:

Current	Leasehold property 2018 £'000	Other 2018 £'000	Leasehold property 2017 £'000	Other 2017 £'000
Within one year	193	–	109	–
Within two to five years	268	–	364	–
After five years	–	–	13	–
Total	**461**	**–**	**486**	**–**

Company Operating Leases

Current	Leasehold property 2018 £'000	Other 2018 £'000	Leasehold property 2017 £'000	Other 2017 £'000
Within one year	23	–	13	–
Within two to five years	23	–	52	–
After five years	–	–	–	–
Total	**46**	**–**	**65**	**–**

20. Related Party Transactions

Details of Directors' remuneration are given in the Directors' Remuneration Report. Other related party transactions are as follows:

		Transaction value		Balance Due to Related Party	
Related party relationship	**Type of Transaction**	**2018 £'000**	**2017 £'000**	**2018 £'000**	**2017 £'000**
Companies in which Directors or their immediate family have a significant / controlling interest	Provision of management services and website design	5	13	–	–
	Training services	4	–	–	–

Notes to the Consolidated Financial Statements Continued

21. Share Capital and Capital Restructuring

	Number	£'000
At 1 April 2016	**510,379,336**	**2,552**
Consolidation of 0.5p shares to 20p shares	(497,619,852)	-
Issue of share capital - placing	9,391,667	1,686
Issue of share capital - consideration	952,747	382
At 31 March 2017 (as previously stated)	**23,103,898**	**4,620**
Restatement of Court capital reduction 4 August 2016	-	(4,209)
Restatement of the excess over nominal value on deferred consideration shares on the acquisition of Q4Ex Ltd	-	(180)
At 31 March 2017 (as restated)	**23,103,898**	**231**
At 1 April 2017	**23,103,898**	**231**
At end of year 23,103,898 Ordinary shares of 1p	**23,103,898**	**231**

The Group now has distributable reserves and so is in a position to pay a dividend in the future if appropriate. When appropriate a progressive dividend policy will be adopted.

22. Prior Year Accounting Restatement – Share Capital and Reserves

The Group has identified an error in the way it accounted for the court sanctioned capital reduction in its interim results to 30 September 2016, and this error has been replicated in subsequent reporting, being corrected in the year ended 31 March 2018. The Group has also identified an unrelated error in the accounting for the deferred consideration on the acquisition of Q4Ex Ltd in the year ended 31 March 2017. The errors have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the Group's consolidated financial statements.

Group Consolidated statement of financial position 31 March 2017	**As previously reported £'000**	**Adjustments £'000**	**As restated £'000**
Share capital	4,620	(4,389)	231
Share premium account	-	-	-
Other reserves	1,622	378	2,000
Translation reserve	4	-	4
Retained profit	4,843	4,011	8,854
Total equity	**11,089**	**-**	**11,089**

Notes to the Consolidated Financial Statements Continued

Group Consolidated statement of comprehensive income 31 March 2017	**As previously reported £'000**	**Adjustments £'000**	**As restated £'000**
Fair value adjustment	(300)	(198)	(498)
Others	(830)	(3)	(833)
Loss from continuing operations	**(1,130)**	**(201)**	**(1,331)**
Total comprehensive income	**378**	**(201)**	**177**
Basic earnings/ (loss) per share	£0.0190	£(0.0100)	£0.0090
Diluted earnings/ (loss) per share	£0.0187	£(0.0098)	£0.0088

There is no impact on the total operating, investing or financing cash flows for the year ended 31 March 2017 and 31 March 2018.

23. Discontinued operations

Discontinued operations relate to the SME Mass Market business. The trade and assets of this business were disposed of on 22 July 2016 for a total cash consideration of £2,735,727 (less an initial amount of £465,519 in respect of advance receipts/payments).

The following table summarises the results of the SME Mass Market segment included in discontinued operations in the consolidated statement of income:

	Year to 31 March 2018 £'000	**Year to 31 March 2017 £'000**
Sales	-	700
Costs and expenses	-	(566)
Profit on sale	-	1,336
Profit before tax	-	1,470
Taxation	-	38
Profit attributable to the shareholders of the Company	**-**	**1,508**

Profit on disposal is calculated as the fair value of consideration received less the fair value of assets and liabilities disposed.

Notice of Annual General Meeting

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of SysGroup plc (Company) will be held on 21 September 2018 at 11.00 am at SysGroup plc, Walker House, Exchange Flags, Liverpool L2 3YL for the purpose of considering and, if thought fit, passing the resolutions set out below, of which Resolutions 1 to 7 will be proposed as ordinary resolutions and Resolutions 8 and 9 will be proposed as special resolutions.

Ordinary Business

To consider and, if thought fit, pass the following resolutions:

1. **TO** receive, consider and adopt the Annual Report and Financial Statements for the year ended 31 March 2018 together with the Directors' and Auditors' Reports contained therein.

2. **TO** reappoint Adam Binks as a director in accordance with the Company's articles of association.

3. **TO** reappoint Michael James Fletcher as a director in accordance with the Company's articles of association.

4. **TO** reappoint Mark Richard Quartermaine as a director in accordance with the Company's articles of association.

5. **TO** reappoint John Michael Edelson as a director who retires by rotation.

6. **TO** reappoint BDO LLP as auditors of the Company and authorise the Directors to fix their remuneration.

7. **THAT**, in accordance with section 551 of the CA 2006, the Directors be generally and unconditionally authorised to allot Relevant Securities (as defined in the notes to this resolution):

    a. comprising equity securities (as defined by section 560 of the CA 2006) up to an aggregate nominal amount of £154,025 (such amount to be reduced by the nominal amount of any Relevant Securities allotted pursuant the authority in resolution 7.b below) in connection with an offer by way of a rights issue:

        i. to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

        ii. to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

        but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

    b. in any other case, up to an aggregate nominal amount of £23,103 (such amount to be reduced by the nominal amount of any equity securities allotted pursuant to the authority in resolution 7.a above in excess of £23,103), provided that this authority shall, unless renewed, varied or revoked by the Company, expire 15 months from the

Notice of Annual General Meeting Continued

date of this resolution or, if earlier, the date of the next annual general meeting of the Company save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the Directors may allot Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

For the purposes of the resolution: **'Relevant Securities'** means:

i. shares in the Company other than shares allotted pursuant to: an employee share scheme (as defined by section 1166 of the CA 2006); a right to subscribe for shares in the Company where the grant of the right itself constituted a Relevant Security; or a right to convert securities into shares in the Company where the grant of the right itself constituted a Relevant Security; and

ii. any right to subscribe for or to convert any security into shares in the Company other than rights to subscribe for or convert any security into shares allotted pursuant to an employee share scheme (as defined by section 1166 of the CA 2006). References to the allotment of Relevant Securities in the resolution include the grant of such rights.

Special Business

As special business, to consider and, if thought fit, pass the following resolutions:

8. THAT, subject to the passing of resolution 7, the Directors be given the general power to allot equity securities (as defined by section 560 of the Act) for cash, either pursuant to the authority conferred by resolution 7 or by way of a sale of treasury shares, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

a. the allotment of equity securities in connection with an offer by way of a rights issue:

i. to the holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

ii. to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

b. the allotment (otherwise than pursuant to resolutions 8.a above) of equity securities up to an aggregate nominal amount of £23,103.

The power granted by this resolution will expire 15 months from the date this resolution is passed or, if earlier, the conclusion of the Company's next annual general meeting (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity

Notice of Annual General Meeting Continued

securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

This resolution revokes and replaces all unexercised powers previously granted to the Directors to allot equity securities as if section 561(1) of the 2006 Act did not apply but without prejudice to any allotment of equity securities already made or agreed to be made pursuant to such authorities.

9. TO authorise the Company generally and unconditionally to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of ordinary shares of £0.01 each (**Ordinary Shares**) provided that:

a. the maximum aggregate number of Ordinary Shares that may be purchased is 3,465,584;

b. the minimum price (excluding expenses) which may be paid for each Ordinary Share is £0.01;

c. the maximum price (excluding expenses) which may be paid for each Ordinary Share is the higher of:

i. 105 per cent of the average market value of an Ordinary Share in the Company for the five business days prior to the day the purchase is made; and

ii. the value of an Ordinary Share calculated on the basis of the higher of the price quoted for:

a) the last independent trade of; and

b) the highest current independent bid for,

any number of the Company's Ordinary Shares on the trading venue where the purchase is carried out;

d. the authority conferred by this resolution shall expire 15 months from the date this resolution is passed or, if earlier, at the conclusion of the Company's next annual general meeting save that the Company may, before the expiry of the authority granted by this resolution, enter into a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority.

By order of the board

Kirsti Pinnell
Company Secretary
20 July 2018

Registered Office:
Walker House
Exchange Flags
Liverpool L2 3YL

Notice of Annual General Meeting Continued

Notes

1. Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies who need not be a member of the Company to attend and to vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.

2. In order to be valid, any form of proxy and power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power of attorney, must reach the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, not less than 48 hours (excluding weekends and bank holidays) before the time of the meeting or of any adjournment of the meeting.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that to be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the number of votes they may cast), holders of Ordinary Shares must be entered on the relevant register of securities by 11.00 am on 19 September 2018. Changes to entries on the relevant register of securities after 11.00 am on 19 September 2018 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

4. As at 5:00 pm on 19 July 2018, which is the latest practicable date before publication of this notice, the Company's issued share capital comprised 23,103,898 ordinary shares of £0.01 each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5:00 pm on 19 July 2018 is 23,103,898. The Company's website will include information on the number of shares and voting rights.

5. Copies of the service contracts and letters of appointment of each of the Directors of the Company together with the Register of Directors' Interests will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and public holidays excluded) and at the place of the Annual General Meeting from at least 15 minutes prior to and until the conclusion of the Annual General Meeting.

6. The Directors have no present intention of exercising either the allotment authority under resolution 7 or the disapplication of pre-emption rights authority under resolution 8.

7. The Annual Report and Financial statements can be downloaded from the investor section of the Company's website at the following location www.sysgroupplc.com/financial-reports/